

**June 05, 2009**



**Highlights for  
the Week**

**THE CBK WEEKLY BULLETIN**

Overall 12 month inflation came down from 26.1 percent in April 2009 to 19.5 percent in May 2009. Similarly, underlying 12 month inflation declined from 9.9 percent to 9.4 percent in the period.

The Government securities market registered an impressive performance of 228.5 percent during the Treasury bills auction of June 4, 2009. The average 91-day Treasury bills rate was 7.4 percent while the average 182-day Treasury bills rate was 8.4 percent.

The average interbank interest rate declined to 4.1 percent in the week to June 04, 2009 from 5.9 percent in the week ending May 28, 2009.

During the week ending June 05, 2009, the Kenya Shilling on average depicted mixed performance against the major international currencies; remaining stable against the US Dollar, weakening against the Sterling Pound, the Euro and strengthening against the Japanese Yen. Against the US dollar, the Shilling exchanged at an average of Ksh 78.00 in the week ending June 05, 2009; equal on average, to the rate at which it traded in the previous week.

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,285 million (equivalent to 4.6 months of imports) as at June 05, 2008 to US dollar 2,867million (equivalent to 3.3 months of imports) as at June 05, 2009.

Central Bank's Open Market Operations injected Ksh 300 million to commercial banks and redeemed maturing reverse repo securities worth Ksh 6.7 billion during the week ending June 03, 2009.

The Government gross domestic debt increased by Ksh 58.6 billion as at May 29, 2009 from 430.6 billion in June 2008. From July 01, 2008 to May 29, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 38.6 billion compared with Ksh 38.2 billion in a similar period of 2007/08.

Equity turnover declined by 60 percent during the week ending June 4, 2009 as stocks worth Ksh 448.6 million were traded compared with Ksh 1.1 billion traded in the previous week.

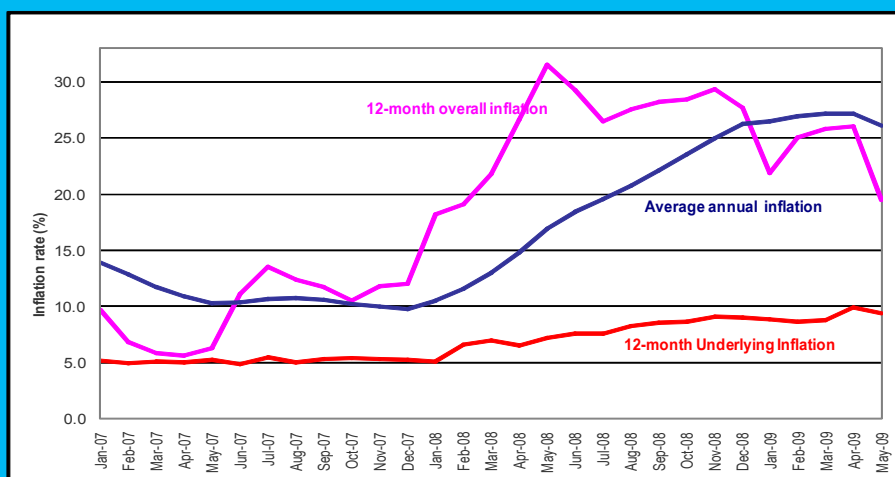
## Inflation

Overall 12-month inflation declined to 19.5 percent in May 2009 from 26.1 percent in April 2009 and 31.5 percent in May 2008. This decline, which was reflected in lower prices for basic food items such as sukuma wiki (kale), cabbages, tomatoes and other seasonal food items in May 2009, was attributed to the favourable weather and continued decrease in price of fuel. Other categories where prices came down between April and May 2009 were fuel and power and transport and telecommunication.

Meanwhile, underlying 12 month inflation declined from 9.9 percent in April 2009 to 9.4 percent in May 2009.

Inflation is expected to decline further as supply of basic food increase due to favorable weather, reduced cost of transport and processing of goods and services owing to current relatively low international crude oil price.

**Chart A: Trends in Overall and Underlying Inflation**



Source: Central Bank of Kenya

## Government Securities Auction

The Government securities market registered an impressive performance of 228.5 percent during the Treasury bills auction of June 4, 2009. During the auction, the Government had offered for sale Treasury bills worth Ksh 6.5 billion and received bids totalling Ksh 14.9 billion of which 80.5 percent were in 182 days Treasury bills.

During the auction, the Government accepted bids totalling Ksh 7.1 billion, of which Ksh 5.5 billion or 77.8 percent were in competitive bids. The proceeds of the auction were adequate to cover the cost of rolling over Treasury bills maturities totalling Ksh 5.4 billion in the week and provide additional borrowing of Ksh 1.7 billion.

## Treasury bills interest rates

The average 91-day Treasury bills rate declined by 6.3 basis points from 7.494 percent in the previous week's auction to 7.431 percent while the average 182-day Treasury bills rate decreased by 31.2 basis points from 8.674 percent to 8.362

percent (Table 1 and Chart B). The 12-weeks moving average for the 91-day Treasury bills rate increased from 7.387 percent in the previous week to 7.399 percent while the 182-day Treasury bills rate increased from 8.441 percent to 8.483 percent.

**Table 1: Interest Rates**

Auction date	16-Apr-09	23-Apr-09	30-Apr-09	07-May-09	14-May-09	21-May-09	28-May-09	04-Jun-09
Average 91 day T. Bills	7.314	7.381	7.381	7.358	7.549	7.507	7.494	7.431
Average 182 day T. Bills	8.465	8.603	8.603	8.686	8.914	8.875	8.674	8.362

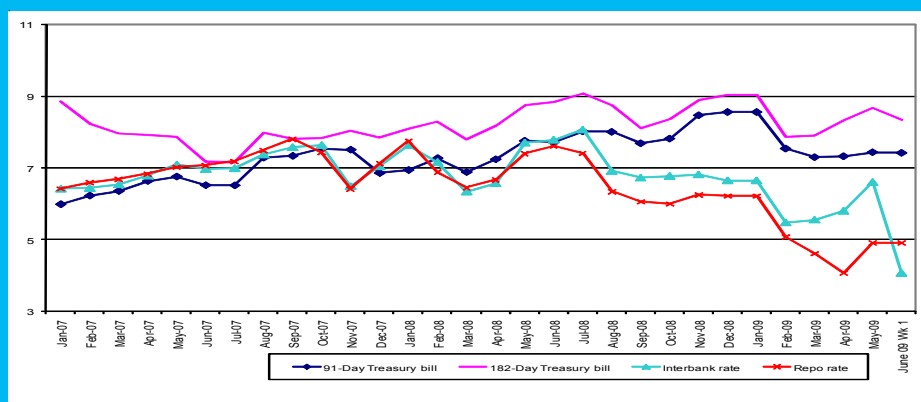
  

Month	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Average savings rate	1.73	1.74	1.61	1.65	2.10	2.13	1.90	1.91
Average overdraft rate	13.43	13.91	13.85	14.39	13.84	13.46	13.78	13.66

\* Revised

Source: Central Bank of Kenya

**Chart B: The Structure of Interest Rates**



Source: Central Bank of Kenya

### Interbank and REPO Rates

Activity in the interbank market declined in the week to June 4, 2009 with the number of deals declining to 260 from 403 dealt in the week to May 28, 2009. Similarly, the average volume of transaction declined from Ksh 40.4 billion to Ksh 32.6 billion transacted in the previous week while the average interbank interest rate declined to 4.1 percent from 5.9 percent. This trend reflects normalisation of interbank liquidity due to accelerated government payments for goods and services.

**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
<b>May 15 - May 21 2009</b>	<b>372</b>	<b>47,532</b>	<b>6.53</b>
22-May-09	87	9,899	6.27
25-May-09	92	9,975	6.16
26-May-09	90	8,619	5.93
27-May-09	82	7,028	5.69
28-May-09	52	4,834	5.29
<b>May 22 - May 28 2009</b>	<b>403</b>	<b>40,355</b>	<b>5.87</b>
29-May-09	51	4,409	4.65
2-Jun-09	66	9,691	4.17
3-Jun-09	59	7,577	3.83
4-Jun-09	84	10,886	3.68
<b>May 29 - June 4 2009</b>	<b>260</b>	<b>32,563</b>	<b>4.08</b>

Source: Central Bank of Kenya

## The Shilling Exchange Rate

During the week ending June 05, 2009, the Kenya Shilling on average depicted mixed performance against the major international currencies; remaining stable against the US Dollar, weakening against the Sterling Pound, the Euro and strengthening against the Japanese Yen. Against the US dollar, the Shilling exchanged at an average of Ksh 78.00 in the week ending June 05, 2009; equal on average, to the rate at which it traded in the previous week (Table 3). The stability of the Shilling against the US dollar was attributed to stable demand and supply of US dollars in the domestic foreign exchange market relative to the local currency.

The Shilling however, weakened against the Sterling Pound, the Euro and strengthened against the Japanese Yen in the week ending June 05, 2009, to trade at an average of Ksh 127.48 per Sterling Pound, Ksh 110.76 per Euro and Ksh 80.99 per 100 Japanese Yen, compared with Ksh 124.46 per Sterling Pound, Ksh 108.91 per Euro and Ksh 81.61 per 100 Japanese Yen in the previous week. In the regional market, the Ksh was stable. The shilling exchanged at an average of Uganda Shillings 27.83 and Tanzania shillings 16.98 during the week compared to Uganda shillings 28.74 and Tanzania shillings 16.96 the previous week.

**Table 3: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS
25-May-09	77.88	123.92	109.11	81.93	29.15	17.03
26-May-09	77.94	123.85	108.89	82.23	28.74	17.00
27-May-09	78.05	124.49	108.79	81.88	28.70	16.98
28-May-09	78.16	124.51	108.05	80.97	28.66	16.89
29-May-09	78.35	125.53	109.70	81.04	28.46	16.88
<b>May 25-29 2009</b>	<b>78.07</b>	<b>124.46</b>	<b>108.91</b>	<b>81.61</b>	<b>28.74</b>	<b>16.96</b>
02-Jun-09	78.21	128.12	110.46	81.11	28.51	16.91
03-Jun-09	77.96	129.58	111.48	81.27	27.77	17.02
04-Jun-09	77.89	126.67	110.48	81.02	27.96	16.99
05-Jun-09	77.92	125.55	110.62	80.58	27.08	16.98
<b>June 02-05 2009</b>	<b>78.00</b>	<b>127.48</b>	<b>110.76</b>	<b>80.99</b>	<b>27.83</b>	<b>16.98</b>

Source: Central Bank of Kenya

## Foreign Exchange Reserves

Official usable foreign exchange reserves held by the Central Bank declined from US dollar 3,285 million (equivalent to 4.6 months of imports) as at June 05, 2008 to US dollar 2,867 million (equivalent to 3.3 months of imports) as at June 05, 2009 (Table 4). The decline in import cover reflects reduction in reserves level as well as increased import bill. Commercial banks foreign exchange reserves holdings, which are predominantly used by private sector to meet external financial obligations, increased from US\$ 1,587 million as at end of April 2008 to US\$ 1,733 million as at end of April 2009.

**Table 4: Official Foreign Exchange Reserves (US\$ Million)**

	05-Jun-08	29-Aug-08	30-Sep-08	31-Dec-08	30-Jan-09	27-Feb-09	31-Mar-09	30-Apr-09	29-May-09	05-Jun-09
Usable Reserves	3,285	3,152	3,086	2,768	2,671	2,661	2,620	2,608	2,789	2,867
Months of Imports Cover*	4.58	4.14	4.06	3.35	3.19	3.17	3.13	3.11	3.22	3.33
Months of Imports Cover**	3.65	3.43	3.35	2.77	2.66	2.65	2.61	2.59	2.80	2.88

\*Based on 36 month average of imports of goods and non-factor services

\*\*Based on current year's average imports of goods and non-factor services

Source: Central Bank of Kenya

Monetary Policy Operations

The liquidity situation in the money market eased in the week to June 03, 2009. Government spending amounted to Ksh 17.3 billion in the week to June 03, 2009 compared to the previous week's spending of Ksh 7.6 billion. Further, Central Bank offered liquidity amounting to Ksh 1.2 billion to commercial banks via the reverse repurchase agreement securities as shown in Table 5. Reserve money averaged Ksh 158.8 billion in the week and remained below target by Ksh 6.3 billion.

Table 5: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)			OMO (Reverse REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast (1)	Target (2)	Exc(+)/Short(-) 3=(2-1)	Posted (4)	Injected (5)	Exc(+)/Short(-) 6=(5-4)	Actual (8)	Exc(+)/Short(-) 9=(10+11)	Exc(+)/Short(-) 10	Exc(+)/Short(-) 11
28-May	159.9	164.9	-5.0	3.0	1.1	-1.9	159.2	-5.7	6.3	-12.0
29-May	159.5	164.9	-5.4	0.0	0.0	0.0	160.3	-4.6	7.7	-12.3
02-Jun	152.5	165.3	-12.7	3.0	0.1	-2.9	157.3	-8.0	3.1	-11.1
03-Jun	158.5	165.3	-6.7	0.0	0.0	0.0	158.3	-7.0	2.8	-9.8
Average	157.6	165.1	-7.5	1.5	0.3	-1.2	158.8	-6.3	5.0	-11.3

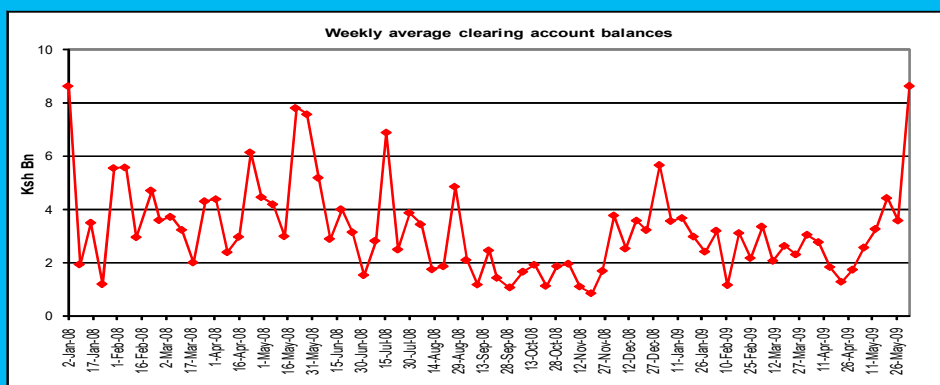
\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

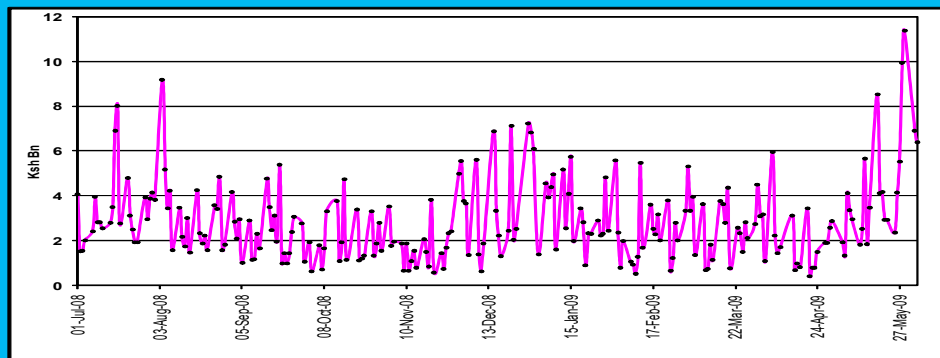
Commercial banks maintained an average of Ksh 8.7 billion in their clearing accounts at the Central Bank in the week to June 03, 2009, compared with Ksh 3.6 billion held in the previous week (Charts C1 and C2).

Chart C1: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

Chart C2: Daily Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

## Government Domestic Debt

The Government gross domestic debt increased from Ksh 430.6 billion in June 2008 to Ksh 489.2 billion as at May 29, 2009 (Table 6 and Chart D). This was attributed to increases of Ksh 22.2 billion in Treasury bills excluding repos, Ksh 33.1 billion in Treasury bonds and Ksh 6.7 billion in overdraft at the Central Bank. However, these increases were partly offset by a decrease of Ksh 3.5 billion in other domestic debt.

Treasury bills (excluding Repos) increased from Ksh 76.8 billion in June 2008 to Ksh 99.1 billion as at May 29, 2009. Treasury bonds and overdraft at Central Bank also increased from Ksh 315.2 billion and zero, respectively, to Ksh 348.3 billion and Ksh 6.7 billion during the period. However, other domestic debt decreased from Ksh 37.8 billion to Ksh 34.4 billion, while Government long term stocks remained unchanged at Ksh 0.8 billion during the period.

Following these developments, the holdings of Treasury bonds in total Government securities decreased from 80.2 percent in June 2008 to 77.7 percent as at May 29, 2009 while Treasury bills holdings increased from 19.6 percent to 22.1 percent during the period. As a result, the maturity profile of Government securities declined from 3 years and 8 months to 3 years and 6 months during the period.

Government securities holdings by commercial banks and other investors increased from 48.6 percent and 1.5 percent, respectively, in June 2008 to 50.6 percent and 5.1 percent as at May 29, 2009. However, holdings of insurance companies,

**Table 6: Government Domestic Debt (Ksh Billion)**

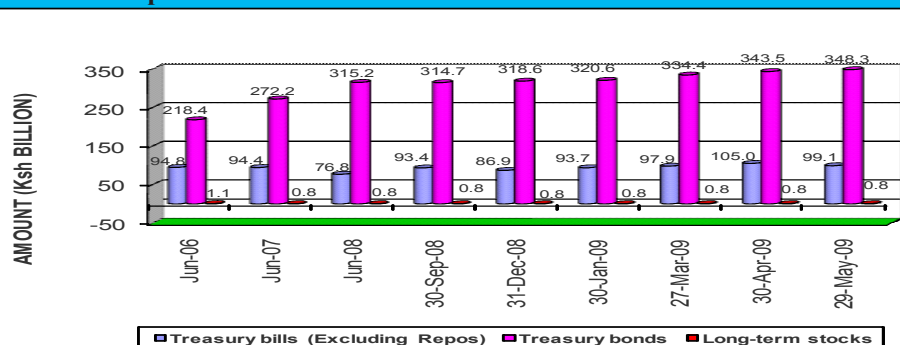
	Jun-08	31st Dec 08	30th Jan 09	27th Feb 09	27th Mar 09	30th April 09	22nd May 09	29th May 09	Changes 22nd May-09 - 29th May-09	30 th Jun-08 -29th May-09
1. Treasury Bills (Excluding Repos) (As % of total securities)	76.8 19.6	86.9 21.4	93.7 22.6	96.9 22.7	97.9 22.6	105.0 23.4	102.8 23.5	99.1 22.1	-3.7	22.2
2. Treasury Bonds (As % of total securities)	315.2 80.2	318.6 78.4	320.6 77.2	330.2 77.2	334.4 77.2	343.5 76.5	334.4 76.4	348.3 77.7	13.9	33.1
3. Long Term Stocks (As % of total securities)	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.8 0.2	0.0	0.0
4. Total Securities (1+2+3)	392.8	406.3	415.1	427.8	433.1	449.2	438.0	448.1	10.1	55.4
5. Overdraft at Central Bank	0.0	15.1	4.7	16.9	5.5	12.4	12.7	6.7	6.7	6.7
6. Other Domestic debt*	37.8	34.9	34.6	34.1	35.4	35.9	34.2	34.4	0.1	-3.5
7. Gross Domestic Debt (4+5+6)	430.6	456.2	454.4	478.8	474.0	497.5	484.9	489.2	4.3	58.6
8. Interest payments on domestic debt (Cumulative in FY)	42.2	22.7	26.2	30.5	33.5	37.3	38.4	38.6	0.1	

\* Other domestic debt includes Pre-1997 Government Overdraft, clearing items in transit, advances from commercial banks and TRCs.

Source: Central Bank of Kenya

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**Chart D: Composition of Government Securities**



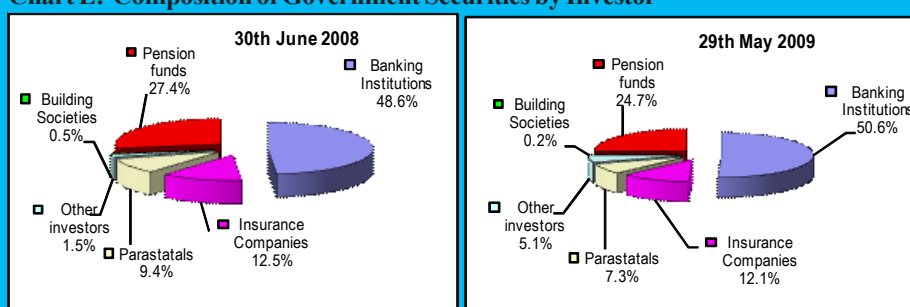
Source: Central Bank of Kenya

parastatals, building societies, and pension funds declined from 12.5 percent, 9.4 percent, 0.5 percent, and 27.4 percent, respectively, to 12.1 percent, 7.3 percent, 0.2 percent, and 24.7 percent.

### Cost of Domestic Borrowing

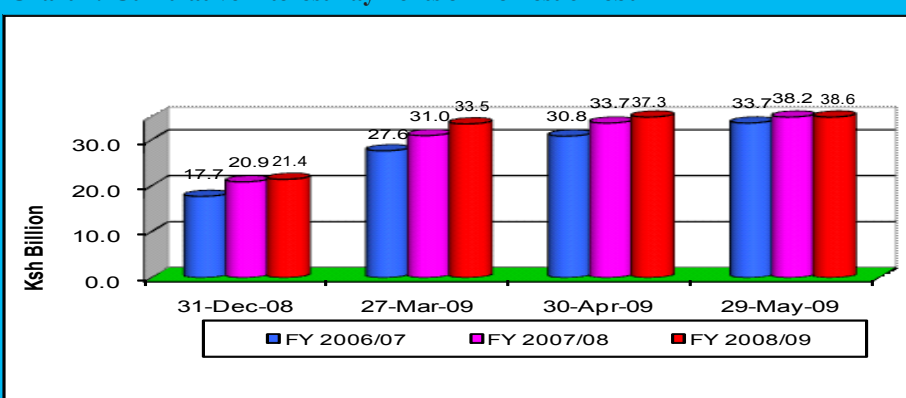
From July 01, 2008 to May 29, 2009, cumulative Government expenditure on interest and other charges on domestic debt amounted to Ksh 38.6 billion compared with Ksh 38.2 billion in a similar period of 2007/08 (Chart F). The interest cost on domestic debt during the period comprised Ksh 29.3 billion in interest and other charges on Treasury bonds, Ksh 8.4 billion in interest and other charges on Treasury bills and Ksh 0.9 billion in interest on Government overdraft at Central Bank of Kenya.

**Chart E: Composition of Government Securities by Investor**



Source: Central Bank of Kenya

**Chart F: Cumulative Interest Payments on Domestic Debt**



Source: Central Bank of Kenya

### The Stock Market

Equity turnover declined by 60 percent during the week ending June 4, 2009. Stocks worth Ksh 448.6 million were traded compared with Ksh 1.1 billion traded in the previous week. The number of shares traded declined from 100.7 million in the previous week to 72.4 million shares traded in the week under review. Market capitalization as a measure of total shareholders wealth increased by Ksh 13.5 billion to close at Ksh 706.6 billion in the week under review from Ksh 693.1 billion in the previous week, reflecting improved prices in most stocks during the week. The NSE 20 Share index gained 75.3 points to settle at 2924.8 points on

June 4, 2009 from 2849.4 points on May 28, 2009. The Nairobi All Share Index also improved by 2.2 percent to settle at 61.01 points. (Table 7).

**Table 7: Key Weekly Market Statistics**

Week Ending	16th Apr	23rd Apr	29th Apr	7th May	14th May	21st May	28-May-09	4-Jun-09
NASI 100= Jan 2008	56.86	58.48	59.00	58.98	59.39	59.72	59.70	61.01
NSE 20 Share Index	2,699.40	2,764.05	2,813.02	2,829.42	2,836.16	2,877.56	2,849.43	2,924.77
Number of Deals	8,680	8,316	6,978	7,597	7,318	8,216	7,807	5,894
Total Shares Traded (millions)	29.22	83.93	39.95	69.83	46.97	77.02	100.73	72.38
Equity Turnover (Ksh.)	366.78	762.46	460.10	690.50	580.52	656.59	1,129.25	448.56
Market Capitalization (Ksh.)	658.64	677.99	684.05	684.79	690.04	693.35	693.13	706.59
Bonds Turnover (Ksh.)	949.61	576.10	74.10	805.80	209.00	-	6,457.95	3,903.00

\* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 01, 2008 = 100)

**Source: Nairobi Stock Exchange**

The Commercial and Services sector traded 55.6 million shares and accounted for 77 percent of total traded volume. Safaricom traded 54 million shares to be the most active stock in the sector. The Finance and Investment sector traded 11 million shares and accounted for 15 percent of total traded volume. Equity Bank and Kenya Commercial Bank traded 4.5 million and 2.2 million shares and were the most active counters in the sector. Industrial and Allied sector traded 5.7 million shares and accounted for 7.8 percent of traded volume. Mumias and KenGen shares were the most active counters. The alternative investment market traded 10,200 shares.

## Bond Market

The Fixed Income Securities Market trading declined during the week ending June 4, 2009 as bonds worth Ksh 3.9 billion was traded compared with Ksh 6.5 billion traded in the previous week.